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Economic situation and outlook for Latin America and the Caribbean for the period 2015-2016

Note by the Secretary-General

The Secretary-General has the honour to transmit herewith an overview report on the economic situation and outlook for Latin America and the Caribbean for the period 2015-2016.

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Economic situation and outlook for Latin America and the Caribbean for the period 2015-2016

[Original: English and Spanish]

Summary

The growth slowdown evident in the region over the past five years has sharpened, illustrated by the worst economic growth performance since 2009. The Latin American and Caribbean region's gross domestic product (GDP) shrank by 0.5 per cent in 2015, which translated into a 1.6 per cent downturn in per capita GDP. In addition to the specific components of each country's economic performance, this regional result reflected external factors such as the decline in global growth and commodity prices and uncertainty and volatility in the international financial markets.

Despite narrowing in nominal terms, the current account deficit as a percentage of GDP widened to 3.3 per cent in 2015, owing to the reduction in regional GDP measured in dollars. As uncertainty and volatility prevailed in the financial markets throughout the year, the financial flows received by the region in 2015 were not sufficient to cover the balance-of-payments current account deficit, and international reserves had to be drawn down to bridge the gap.

In spite of weak external demand, net exports had a positive impact on growth due to low import volumes. By contrast, domestic demand made a negative contribution to GDP growth as both private consumption and gross fixed capital formation contracted. Like economic activity overall, the various components of aggregate demand were sharply differentiated by subregion. In terms of GDP growth, South America performed the worst (contraction of 1.7 per cent) and Central America the best (expansion of 4.4 per cent).

Inflation rose on average, with patterns diverging between the north and south of the region. Falling energy and food prices in international markets helped slow inflation in Central America, while currency depreciation drove inflation higher in South America.

Unlike the pattern in 2014, the fall in the employment rate pushed up the unemployment rate, while the composition of employment deteriorated further. On average, real wages recorded a slight increase, reflecting the generally deteriorating employment conditions and the differentiated trends in inflation.

For the first time since 2009, all the countries of Latin America are running fiscal deficits, although fiscal revenue and spending levels were considerably higher in 2015. On the average in 2015, the central governments posted a primary deficit of 1.1 per cent of GDP and an overall deficit (including public debt interest payments) of 3.1 per cent of GDP. On the monetary and exchange-rate front, changes in international conditions, including falling prices for primary goods and mounting volatility in international financial markets leading to sharp depreciations of some countries' currencies, together with trends in domestic prices, eroded the policy space available to some central banks and thus curtailed their action. A number of countries made reforms to their financial systems to complement monetary and exchange-rate policies.

In 2016, the economy of the region as a whole has not rebounded and, against a backdrop of persistent weakness in the global economy, regional GDP is projected to contract by 0.6 per cent overall, even though the performance of individual countries is expected to vary widely.

Introduction

1. In 2015 the region as a whole experienced its worst growth slowdown since 2009, albeit to differing degrees among the individual countries. The Latin American and Caribbean region's gross domestic product (GDP) shrank by 0.5 per cent in 2015, which translated into a 1.6 per cent downturn in per capita GDP. This result was attributable largely to unfavourable external conditions characterized by weak global growth and even weaker global trade driven by China, a continued decline in commodity prices and high volatility in the international financial markets. Specific domestic factors played a significant role in the diversity exhibited by the economic performance of the individual countries, while, overall, this performance differed sharply by subregion with the countries located in the south of the region clearly faring worse than those in the north.

2. The current account deficit as a percentage of GDP widened to 3.3 per cent. In spite of weak external demand, net exports had a positive impact on growth due to low import volumes. By contrast, domestic demand made a negative contribution to GDP growth as both private consumption and gross fixed capital formation contracted. Falling energy and food prices in international markets helped slow inflation in Central America, while currency depreciation drove inflation higher in South America. Unlike the pattern in 2014, the fall in the employment rate pushed up the unemployment rate in the region, while the composition of employment deteriorated further.

3. For the first time since 2009, all the countries of Latin America are running fiscal deficits, although fiscal revenue and spending levels were considerably higher in 2015. On the monetary and exchange-rate front, changes in international conditions, including falling prices for primary goods and mounting volatility in international financial markets leading to sharp depreciations of some countries' currencies, together with trends in domestic prices, eroded the policy space available to some central banks and thus curtailed their action.

4. In 2016 the economy of the region as a whole has not rebounded and, against a backdrop of persistent weakness in the global economy, regional GDP is projected to contract by 0.6 per cent overall, even though the performance of individual countries is expected to vary widely.

A. The external sector

5. Global economic growth slowed from 2.6 per cent in 2014 to 2.4 per cent in 2015, a drop of 0.2 percentage points, leading to a sharp slowdown in world trade. Underlying this outcome was the slowdown in developing economies, where growth declined from 4.3 per cent in 2014 to 3.8 per cent in 2015, and particularly China, which grew by less than 7 per cent for the first time since 1990 (6.9 per cent in 2015). The developed countries, conversely, while still expanding much more slowly than the developing world, have picked up speed in recent years, with growth there rising from 1.7 per cent in 2014 to 1.9 per cent in 2015.

6. The sharp falls in commodity prices across the world were reflected in the average prices at which Latin America and Caribbean countries export those products. Given that a large share of the region's exports are commodities, the drop in the prices of most of these products has a major effect on its export prices. Table

1 shows the variations in the Latin American export commodity price index,[1] with the general index dropping by 29 per cent from its 2014 level. Oil has led this fall, losing 47 per cent, followed by minerals and metals, where prices fell by 23 per cent, and agricultural products, whose prices were down by 16 per cent.

7. Commodity prices are expected to fall again in 2016, although less steeply than in 2015, so the prices of Latin American and Caribbean commodity exports can be expected to deteriorate again overall (see table 1).[2]

Table 1
Latin America: annual variation in the export commodity price index, 2015[a] and 2016[b]
(Percentages)

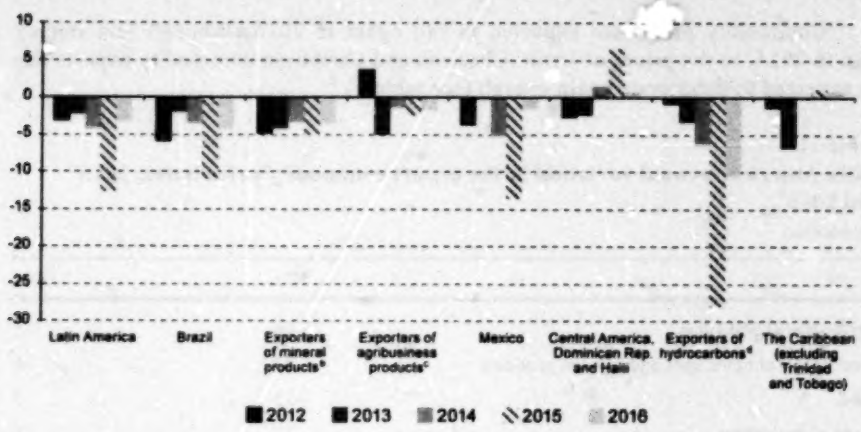
	2015	*2016*
Agricultural products	-16	-5
Food, tropical beverages and oilseed products	-18	-6
Food	-15	-5
Tropical beverages	-21	-8
Oils and oilseed products	-22	-7
Forestry and agricultural raw materials	-6	-3
Minerals and metals	-23	-11
Energy	-42	-22
Crude oil	-47	-25
Derivatives	-27	-17
Coal	-18	-13
Natural gas	-40	-17
Total commodities	-29	-13
Total commodities excluding energy	-19	-6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by Bloomberg, the World Bank, the International Monetary Fund (IMF) and The Economist Intelligence Unit.
[a] Estimates.
[b] Projections.

8. The impact of lower commodity prices on each country's terms of trade varies according to the weighting of the different products in their individual export and import baskets. For the region as a whole, the terms of trade are estimated to have deteriorated by almost 13 per cent in 2015, making this the fourth consecutive year of deterioration (see figure 1).

[1] ECLAC constructs this index of the region's export commodity prices, with product groups weighted by their share in the regional export basket.
[2] Because, even if current levels were to recover somewhat, this would generally not be sufficient to achieve a positive change in the average indices for 2016 from their 2015 levels.

Figure 1
Latin America and the Caribbean (selected countries and country groupings): rate of variation in the terms of trade, 2012-2016[a]
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] The figures for 2015 and 2016 are estimates and projections, respectively.

[b] Chile and Peru.

[c] Argentina, Paraguay and Uruguay.

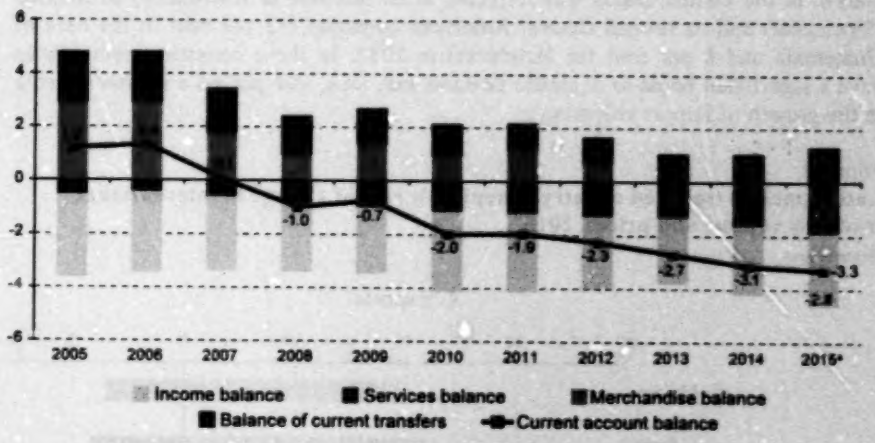
[d] Bolivarian Republic of Venezuela, Colombia, Ecuador, Plurinational State of Bolivia and Trinidad and Tobago.

9. The Central American countries, along with the Dominican Republic and Haiti, benefited from the fall in the prices of energy products, of which they are large net importers. For this group, the terms of trade improved by 7 per cent. The same happened in the Caribbean food- and fuel-importing countries (generally all Caribbean countries apart from Trinidad and Tobago), where the terms of trade rose by 1 per cent in 2015.

10. In contrast, the countries worst affected by the trend of foreign trade prices during the year were those whose exports are mainly concentrated in hydrocarbons (Bolivarian Republic of Venezuela, Colombia, Ecuador, Plurinational State of Bolivia, and Trinidad and Tobago), because their terms of trade fell by 28 per cent in 2015. In Brazil, the terms of trade declined by 11 per cent, since its export basket is heavily weighted with certain products whose prices fell by a large amount this year (metals, particularly iron, which plummeted by 42 per cent in 2015; and foods such as soybeans and sugar, whose prices fell by over 20 per cent). In Mexico, the terms of trade fell by 14 per cent: although this country mainly exports manufactures to the United States market, it is also a net crude oil exporter, so its export prices have suffered a major shock. In countries whose exports are concentrated in minerals and metals the terms of trade declined by 5 per cent, and in the group that exports agribusiness products they declined by 2 per cent. In several of these countries, lower export prices were partly offset by a reduction in the prices of their energy product imports, so the terms-of-trade deterioration was mitigated.

11. The region's balance-of-payments current account deficit improved in 2015 in nominal terms, narrowing from US$ 183 billion to US$ 160 billion. This improvement was offset by the reduction in regional GDP measured in dollars, however, so the current account deficit as a percentage of GDP widened in 2015 to 3.3 per cent, two tenths of a percentage point larger than the gap recorded in the previous year (see figure 2).

Figure 2
Latin America (19 countries): balance-of-payments current account by component, 2005-2015
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] The 2015 figures are estimates as not all countries have published full year data.

12. Among the components of the current account, the merchandise trade balance worsened very significantly from a deficit of US$ 14 billion in 2014 to a gap of US$ 38.7 billion in 2015. This is the second consecutive year in which this account has been in deficit, a situation not seen since 2001. This worsening of the merchandise trade balance reflected a sharp fall in the value of the region's exports (down by 14 per cent in 2015), and a decline in import values (11.5 per cent), the absolute magnitude of which was insufficient to compensate for the drop in exports in 2015.

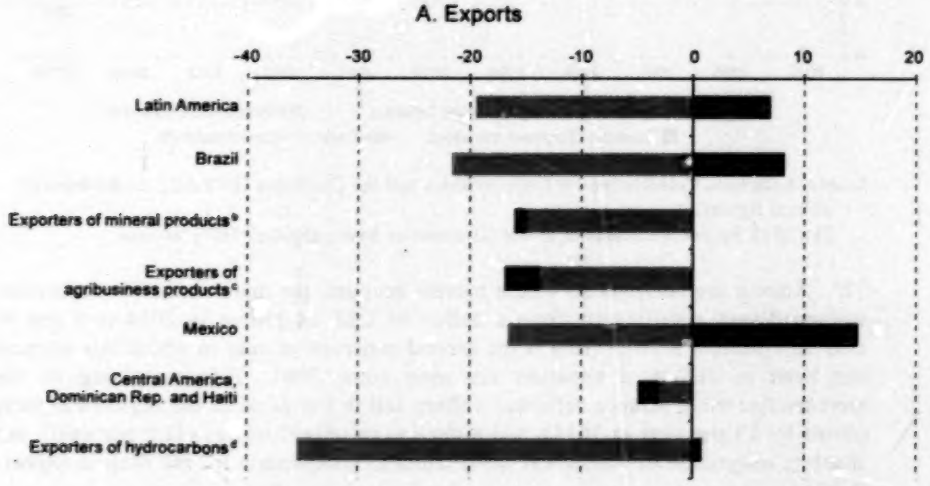
13. The fall in exports is basically explained by the 19.5 per cent fall in Latin American export prices. In turn, the decrease in import values reflected an 8 per cent drop in prices, owing mainly to energy products, and a 4 per cent shrinking in volumes, given the moderate level of activity in several of the region's economies (see figure 3).

14. The balance of trade in services improved significantly, from a deficit of US$ 78.5 billion in 2014 to a deficit of US$ 52 billion in 2015. This improvement on the 2014 result is mainly due to a reduction in imports of transport services, associated with smaller imports of the goods mentioned above. There were also smaller outgoings on the travel account as a result of depreciations in several of the region's currencies. The other services as a whole contracted, as a result of the

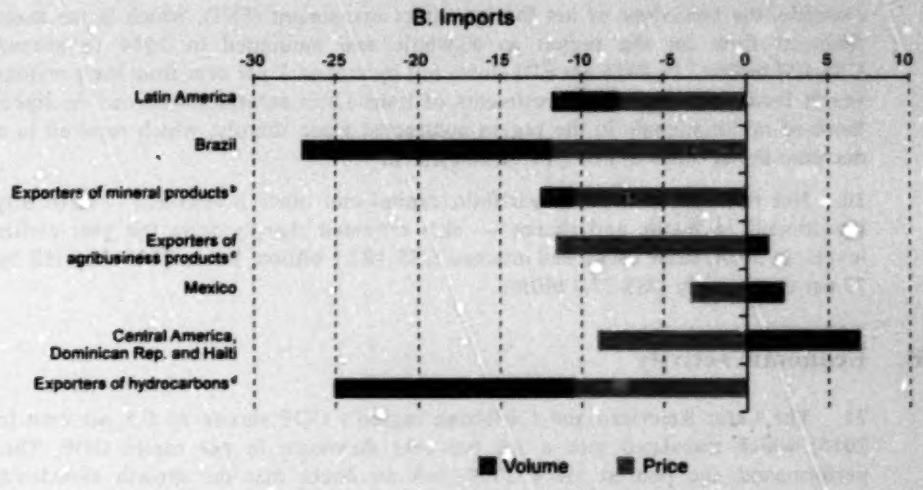
region's lower activity rate during the year, which contributed to a reduction in net outflows on the travel account.

15. The current transfers account reported its customary surplus in 2015, actually improving on the previous year's performance from US$ 62.6 billion in 2014 to US$ 64.6 billion in 2015. This increase was mainly due to the positive trend of migrant remittances, which is the main component of the current transfer category. Remittances are a very important source of financing for several of the region's countries, including El Salvador, Guatemala, Haiti, Honduras and Nicaragua. In 2015, according to the most recent data available, migrant remittances grew by 6 per cent on average in relation to the previous year.[3] The improvement in the labour market in the United States was reflected in an increase in remittances to Mexico (5 per cent) and to several Central American countries (13 per cent in the case of Guatemala and 8 per cent for Honduras) in 2015. In these countries, remittances gave a significant boost to domestic demand and, thus, also played a substantial role in the growth of import volumes.

Figure 3
Latin America (selected country groupings): rate of change in international trade, by volume and prices, 2015[a]
(Percentages)



[3] The figures represent the cumulative amount for 2015 up to the month for which each country possesses information.



Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures.

[a] The figures shown are preliminary.

[b] Chile and Peru.

[c] Argentina, Paraguay and Uruguay.

[d] Bolivarian Republic of Venezuela, Colombia, Ecuador, Plurinational State of Bolivia and Trinidad and Tobago.

16. Lastly, as shown in figure 2, the income account has the largest deficit on the current account and generates the largest outflows of net funds abroad for the region. The main component of this account consists of profit repatriation by foreign direct investment firms to their parent companies abroad (these outflows represent an average of nearly 70 per cent of the income account); but they also include external debt interest, among other items.

17. In 2015, the income account improved by over US$ 19 billion, from a deficit of US$ 153 billion in 2014 to one of US$ 134 billion this year. This is due mainly to the reduction in outflows of funds representing profit repatriation. The negative trend of the region's export prices, in line with the deterioration of commodity prices, eroded the earnings of transnational enterprises established in the region; and, as a result, also reduced the proportion of firms repatriating profits to their parent companies.

18. In 2015, financial flows to emerging countries as a whole declined, owing to the uncertainty and volatility prevailing on the financial markets throughout the year.[4] Latin America was not immune to this reality, and, in 2015, the net inflow of financial resources to the region — in other words the balance of the capital and financial accounts of the balance of payments — totalled 2.8 per cent of GDP, which was insufficient to fully finance the 3.3 per cent of GDP current account deficit. As a result, the region as a whole used international reserves amounting to 0.5 per cent of GDP to cover the shortfall.[5]

[4] In the first half of 2015, the situation in Greece was a factor contributing to market instability, whereas the second half of the year felt the impact of the financial events in China.

[5] The balance of the capital and financial account mentioned includes the balance-of-payments category "Errors and omissions".

19. Within the financial account there were a number of interesting trends, for example, the behaviour of net foreign direct investment (FDI), which is the main financial flow for the region as a whole and amounted in 2014 to around US$ 137 billion.[6] In 2015 net FDI flows fell by around 7 per cent from the previous year's level. Although the investments of trans-Latin enterprises abroad declined, those of multinationals in the region contracted more sharply, which resulted in a decrease in net flows of this type of investment.[7]

20. Net regional inflows of portfolio capital and other investment — basically investments in bonds and shares — also retreated sharply from the year-earlier levels. In 2014, these flows had attained US$ 102.1 billion, but in 2015 they fell by 73 per cent to only US$ 27.3 billion.

B. Economic activity

21. The Latin American and Caribbean region's GDP shrank by 0.5 per cent in 2015, which translated into a 1.6 per cent downturn in per capita GDP. This performance, the poorest since 2009, left no doubt that the growth slowdown evident in the region over the past five years has sharpened.

22. The shrinking economic activity at the regional level reflected the downturn in the South American economies, which, as a group, went from growth of 0.6 per cent in 2014 to a contraction of 1.7 per cent in 2015. The subregion's performance was heavily influenced by the negative growth posted by Brazil and the Bolivarian Republic of Venezuela in 2015.

23. The English- and Dutch-speaking Caribbean economies experienced a small uptick in growth, from 0.6 per cent in 2014 to 1.0 per cent in 2015, despite the impacts of natural disasters on some of these countries. Dominica, by contrast, suffered severe enough effects to produce an outright contraction in GDP in 2015.

24. Economic activity gained momentum in the Central American economies and Mexico in 2015. The growth rate picked up from 4.1 per cent in 2014 to 4.4 per cent in 2015 in Central America, and from 2.2 per cent to 2.5 per cent in Mexico.

25. In terms of subregions, the South American economies' contribution to the growth of the region overall has been shrinking since 2011, although it has held steady for the last three years if Brazil and the Bolivarian Republic of Venezuela are excluded from the estimates. Both Central America and the English- and Dutch-speaking Caribbean have seen their contribution to growth increase. The contribution of Brazil and the Bolivarian Republic of Venezuela has turned negative.

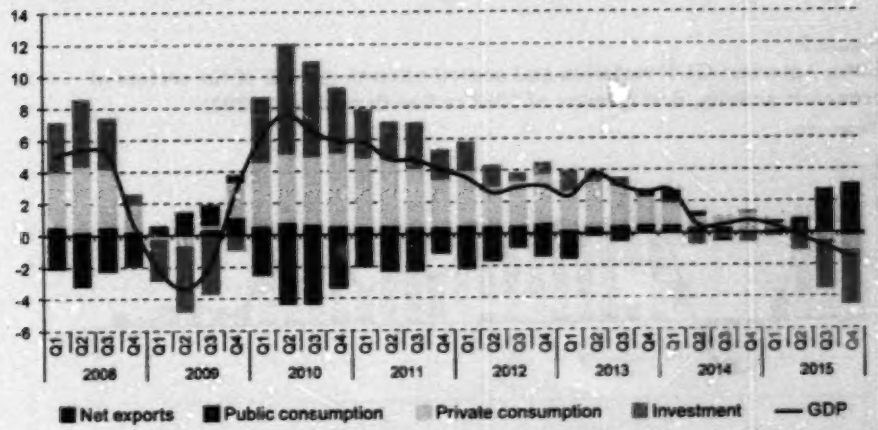
26. In regional terms, domestic demand was down by 0.7 per cent in 2015, with a downturn in private consumption (-0.4 per cent) and in gross fixed capital formation (-5.3 per cent) and a marginal gain in public consumption (0.8 per cent). The contribution of private consumption to GDP growth in the region worsened throughout the year and turned negative in the second semester — a situation which

[6] Wherever possible the figures used are aligned to the sixth edition of the Balance of Payments Manual published by the International Monetary Fund (IMF). For other countries, the data reflect the fifth edition of the Manual.

[7] Financial account information is still not available up to the fourth quarter of 2015 for the Bolivarian Republic of Venezuela or the Plurinational State of Bolivia.

had not occurred since the international financial crisis of 2009. What is more, gross fixed capital formation in Latin America appears to have shrunk throughout 2015, running up seven straight quarters of contraction (see figure 4).

Figure 4
Latin America: GDP variation and contribution to growth of aggregate demand components, first quarter of 2008 to fourth quarter of 2015
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

27. Like economic activity overall, the various components of aggregate demand were sharply differentiated by subregion. For example, with respect to 2014 figures, private consumption shrank 1.8 per cent in South America, but rose 3.4 per cent in Central America. Similarly, public consumption almost flatlined in South America, at 0.4 per cent, but climbed 2.4 per cent in Central America.

28. Gross fixed capital formation was down by 5.3 per cent for Latin America, reflecting a heavy drop (-8.6 per cent) in the South American economies, but was up by 7.0 per cent on 2014 in Central America and by 4.7 per cent for the subregion formed by Central America and Mexico.

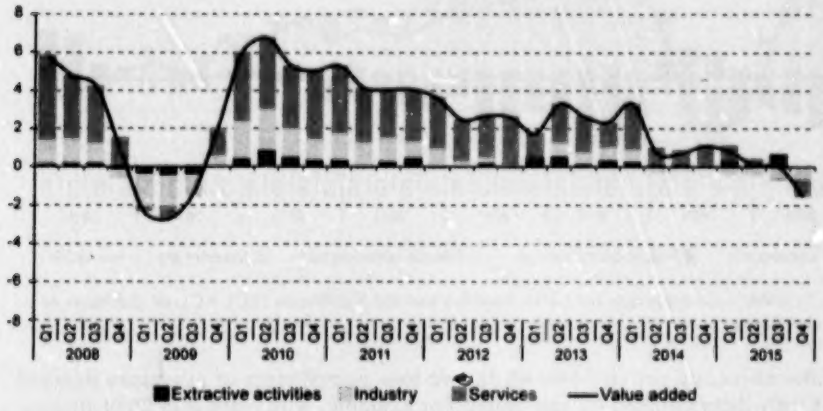
29. A seven-quarter run of contraction in gross fixed capital formation beginning in the second quarter of 2014 has brought this variable's GDP share down by 1.5 percentage points, from 21.5 per cent in 2013 to 20.0 per cent in 2015.

30. Weak domestic demand was reflected in a 2.2 per cent fall in goods and services imports in real terms, as a result of lower consumption and slack investment in the region overall. Meanwhile, goods and services exports climbed 4.3 per cent in real terms. Given that the region's real imports slowed faster than in 2014, net exports made a slightly larger contribution to growth than last year.

31. The performance of domestic demand in Latin America was reflected in the decline in economic activity by sector. For simplicity's sake, the different production activities have been grouped in three major sectors. The first, the primary sector, includes agriculture and mining and extractive activities. The secondary sector includes construction, manufacturing and electricity generation, gas and water. The tertiary sector encompasses services activities.

32. Although all the sectors have slowed, the secondary sector contracted by 2.2 per cent in 2015 on top of a 0.3 per cent decline in 2014. During the same period, the primary and tertiary sectors expanded 2.9 per cent and 0.1 per cent, respectively. As a result, the contribution of the secondary sector to value added growth was negative by 0.48 percentage points, of which the manufacturing sector alone accounted for 0.41 percentage points. The tertiary sector ceased to be the largest contributor to growth, bringing only 0.04 percentage points to value added growth, (see figure 5), while the contribution of the primary sector increased to 0.30 percentage points in 2015.

Figure 5
Latin America: GDP variation and contribution to growth of the sectors of economic activity, first quarter of 2008 to fourth quarter of 2015
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

33. In 2015, gross disposable national income grew at below-GDP rates for the fourth year running in Latin America.[8] The fall in the region's terms of trade and slow revenue growth in 2015 account for the difference between growth in income and in output.

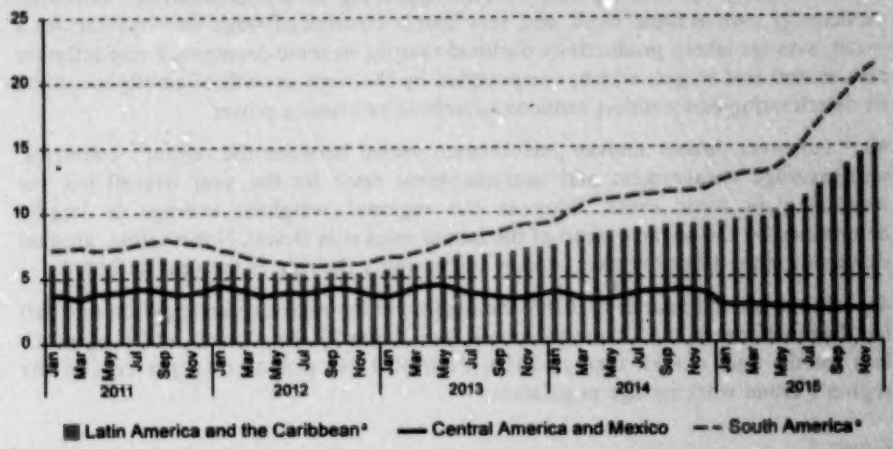
34. Again, the variations between subregions were significant. While the South American economies — especially the energy exporters — experienced the heaviest terms-of-trade downturn, the Central American and Caribbean economies benefited the most, as net importers of food and fuels.

C. Domestic prices

35. Inflation in Latin America and the Caribbean as measured by the consumer price index (CPI) was distinctly higher at the end of 2015 than at the end of 2014, with a cumulative price rise of 15.0 per cent as compared with 9.1 per cent the year before, owing mainly to the acceleration of inflation in the Bolivarian Republic of Venezuela (see figure 6).

[8] The gap between GDP and gross national disposable income is the result of terms of trade, net current transfers and net payments abroad.

Figure 6
Latin America and the Caribbean (weighted averages): 12-month changes in the consumer price index (CPI), January 2011 to December 2015
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Excluding the Bolivarian Republic of Venezuela.

36. A number of factors lie behind the sharp differences between the economies of the region's north and south, but a key one has undoubtedly been the combined effects of changes in energy and food prices and the dynamic of the region's exchange rates. In the economies of the north (except Mexico and Trinidad and Tobago), the drop in energy prices has resulted in a decline in fuel prices, which, given the relative stability of these economies' currencies, has meant lower energy costs and smaller price rises.

37. Large currency depreciations in the economies of the south of the region, particularly those with more flexible exchange rates (Brazil, Chile, Colombia and Peru), greatly outweighed the effects of falling prices for commodities, including energy, the result being inflation as these exchange-rate shifts worked through to domestic prices.

38. In the Bolivarian Republic of Venezuela, factors such as a reduced supply of currency for imports (especially in the private sector), an increasing scarcity of both final goods and production inputs, and monetary financing of public-sector operations, combined with an exchange-rate depreciation of over 400 per cent in the parallel foreign-exchange market, caused inflation to rise strongly. In Argentina, meanwhile, the inflation rate eased in 2015, although it remained in double digits.

D. Employment and wages

39. Whereas an unusually sharp fall in the labour participation rate mitigated the labour market impact of the economic slowdown in 2014, a year later the labour market's adjustment to the cooling regional economy reverted to the more usual

historical patterns in Latin America and the Caribbean.[9] In 2015, the decline in labour participation stopped, and the larger number of individuals seeking income in the job market amid slack labour demand pushed up both open unemployment and time-related underemployment. It also caused a deterioration in employment composition, with a larger proportion of employment appearing in low-productivity activities, particularly own-account work, and very sparse creation of wage employment. As a result, average labour productivity declined sharply. In some countries, rising inflation also eroded real wages, which, compounded by the weak growth of employment and its deteriorating composition, reduced household purchasing power.

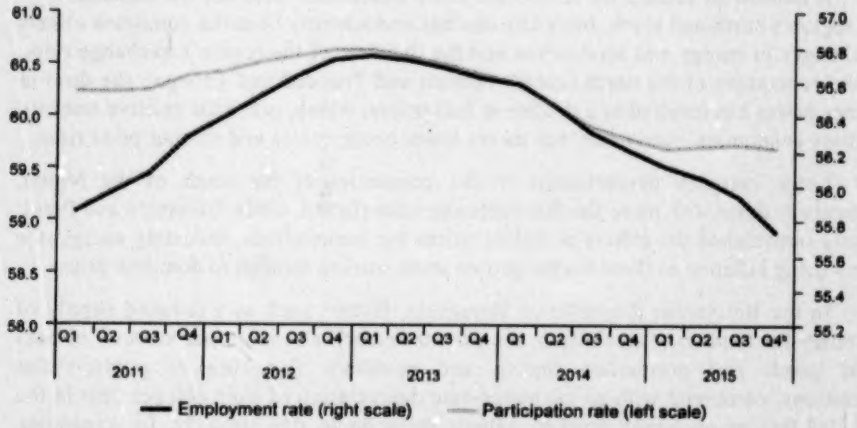
40. However, labour market performance varied between the region's countries, with average employment and unemployment rates for the year overall not yet worsening in most cases, whereas the regional weighted average is largely determined by the adverse trend of the labour market in Brazil. Nonetheless, gradual downturn in the labour market became increasingly the rule as the year unfolded.

41. In the second quarter of 2015, the decline in the regional participation rate that had begun in early 2013 came to an end (see figure 7). As a result, it fell by much less for the year overall than in 2014, from 60.1 per cent to 60.0 per cent of the region's urban working-age population.

Figure 7

Latin America and the Caribbean (weighted average for 10 countries):[a] urban participation and employment rates, rolling years, first quarter of 2011 to fourth quarter of 2015

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] The countries included are Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Ecuador, Jamaica, Mexico, Peru and Uruguay.

[b] Preliminary figures.

[9] See Economic Commission for Latin America and the Caribbean (ECLAC)/International Labour Organization (ILO), "Labour productivity and distribution issues", *The Employment Situation in Latin America and the Caribbean*, Santiago, May 2012, which shows how labour market adjustment in a low-growth context occurs mainly through falling employment levels in developed countries, whereas in Latin America and the Caribbean, adjustment occurs mainly through lower average productivity.

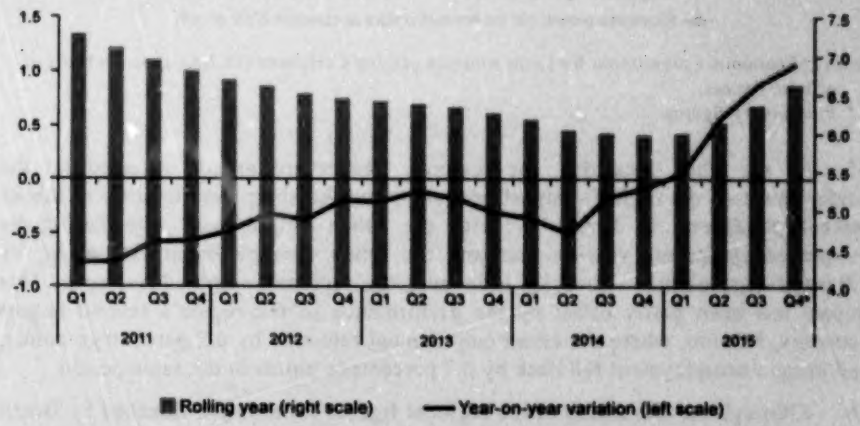
42. At the same time, the downturn in the Latin America and Caribbean economy weakened labour demand; and the employment rate, which had started to drop in the second quarter of 2013 from its level in the year-earlier period, fell further, by 0.4 percentage points year-on-year.

43. Consequently, the unemployment rate, which had come down very sharply since 2010 following its spike in 2009, started to climb again in the 10-country group included in figure 8 in the first quarter of 2015. Measured as a four-quarter moving average, unemployment reached 6.1 per cent in the second quarter of 2015 and 6.4 per cent in the third (see figure 8). As an average for the calendar year, a further increase to 6.5 per cent is expected, representing an estimated 1.2 million additional urban unemployed and pushing the total up to 14.4 million.

Figure 8

Latin America and the Caribbean (10 countries):[a] urban unemployment rate, rolling year and year-on-year variation, first quarter of 2011 to fourth quarter of 2015

(Percentages and percentage points)



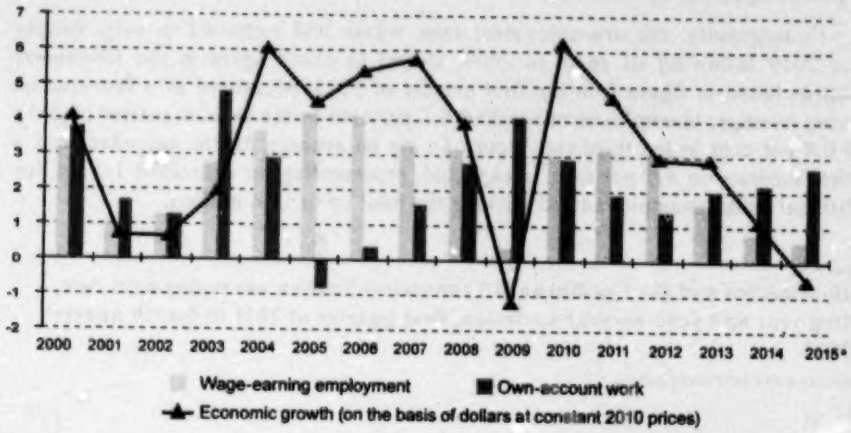
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] The countries included are Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Ecuador, Jamaica, Mexico, Peru and Uruguay.

[b] Preliminary figures.

44. Owing to the weak labour demand, wage-earning employment increased by only 0.6 per cent in 2015 (compared with 0.8 per cent in 2014 and 3.1 per cent in 2012), measured as the weighted average for the countries with information available, and the total increase in employment (1.3 per cent) represented mainly employment in non-wage categories. In particular, growth in own-account work quickened from 2.2 per cent in 2014 to 2.7 per cent in 2015, consistently with this category of employment's countercyclical behaviour over the past few years (see figure 9). In general, but particularly in a context of weak labour demand, this type of work is of worse quality than wage-earning employment; so these contrasting dynamics indicate the deterioration of the average quality of employment.

Figure 9
Latin America and the Caribbean: economic growth and employment creation, 2000-2015
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.

45. As on other occasions, the regional figures are greatly affected by the performance of the region's largest economy; and the sharp deterioration in labour market conditions in Brazil — with the urban employment rate falling by 1.4 percentage points year-on-year and the urban unemployment rate rising by 2.0 percentage points — heavily influences the regional weighted averages. This impact has been partly offset by the performance of the region's second largest economy, Mexico, where the urban employment rate rose by 0.7 percentage points, and urban unemployment fell back by 0.7 percentage points in the same period.

46. Although the worsening of the regional figures is heavily influenced by Brazil and labour market indicators are trending relatively favourably in a number of countries, a deteriorating labour market situation has been the dominant pattern throughout the year.

47. Real wage trends reflected both the generally deteriorating employment conditions and the heterogeneity that exists between the different countries of the region. Among the few countries with information available on real average wage variations, a slight rise of 1.2 per cent is estimated as an average for 2014-2015, compared with the previous year's increase of nearly 2 per cent. This slower real wage growth reflects mostly smaller average increases in nominal wages.

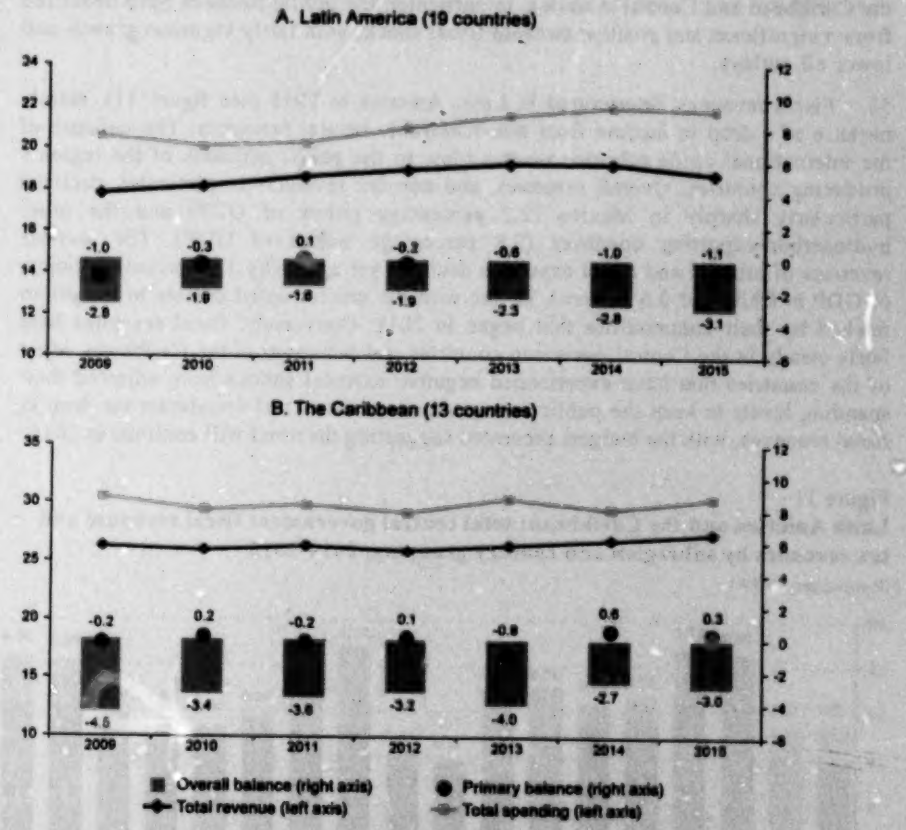
E. Macroeconomic policies

1. Fiscal policy

48. At the central government level, the average fiscal outcome for 2015 was a primary deficit of 1.1 per cent of GDP and an overall deficit (including public debt

interest payments) of 3.1 per cent of GDP.[10] For the first time since 2009, all the countries of Latin America are running fiscal deficits, although fiscal revenue and spending levels are considerably higher this year, as figure 10 shows.

Figure 10
Latin America and the Caribbean: central government fiscal indicators, 2009-2015
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and budgets and unofficial estimates.

49. The fiscal situation in 15 of the 19 countries of Latin America held fairly steady or improved in 2015. In a number of the region's countries, a substantial drop in fiscal revenues resulting from lower export commodity prices was offset by proportional adjustments in public spending.

50. Fiscal balances improved considerably in Ecuador and Honduras. The fiscal position in Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Paraguay and Uruguay remained much as in 2014. In Brazil, Chile, Haiti and Peru, conversely, the fiscal balance worsened substantially.

[10] The figures do not include all government operations, and in some countries the deficit is much larger when public enterprises and subnational governments are included.

51. In the Caribbean, the average fiscal balance deteriorated, being estimated at -3.0 per cent of GDP for 2015, with the primary balance put at 0.3 per cent of GDP. Eight of the 13 countries in the region improved or saw little change during 2015, with the fiscal balance worsening in just five, among them Barbados, Suriname and Trinidad and Tobago.

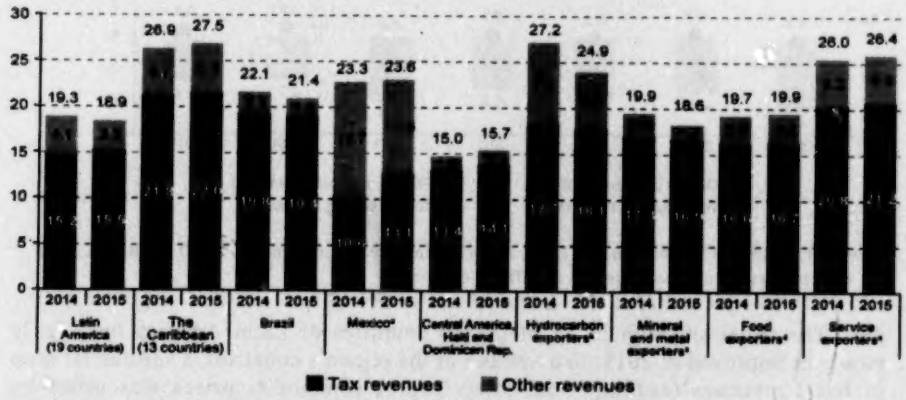
52. The heterogeneity of the macroeconomic performance and productive specialization of the region's countries is reflected in an array of fiscal outcomes. In the Caribbean and Central America, in particular, the public finances have benefited from a significant and positive twofold fiscal shock, with fairly vigorous growth and lower oil outlays.

53. Fiscal revenues deteriorated in Latin America in 2015 (see figure 11), mainly because of a drop in income from non-renewable natural resources. The collapse of the international crude oil price dealt a blow to the public accounts of the region's producing countries. Overall revenues, and non-tax revenues in particular, declined particularly sharply in Mexico (2.2 percentage points of GDP) and the other hydrocarbon-exporting countries (2.8 percentage points of GDP). The non-tax revenues of mineral and metal exporters declined yet again (by 1.2 percentage points of GDP in Chile and 0.6 in Peru), in line with the uninterrupted decline in the prices fetched by their commodities that began in 2011. Conversely, fiscal revenues held fairly steady in the Central American countries and increased in the Caribbean. Most of the countries that have experienced negative external shocks have adjusted their spending levels to keep the public accounts under control and counteract the drop in fiscal revenues, with the budgets presented suggesting the trend will continue in 2016.

Figure 11

Latin America and the Caribbean: total central government fiscal revenues and tax revenues by subregion and country grouping, 2014-2015

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and budgets and unofficial estimates.

[a] Federal public sector.

[b] Bolivarian Republic of Venezuela, Colombia, Ecuador, Plurinational State of Bolivia and Trinidad and Tobago.

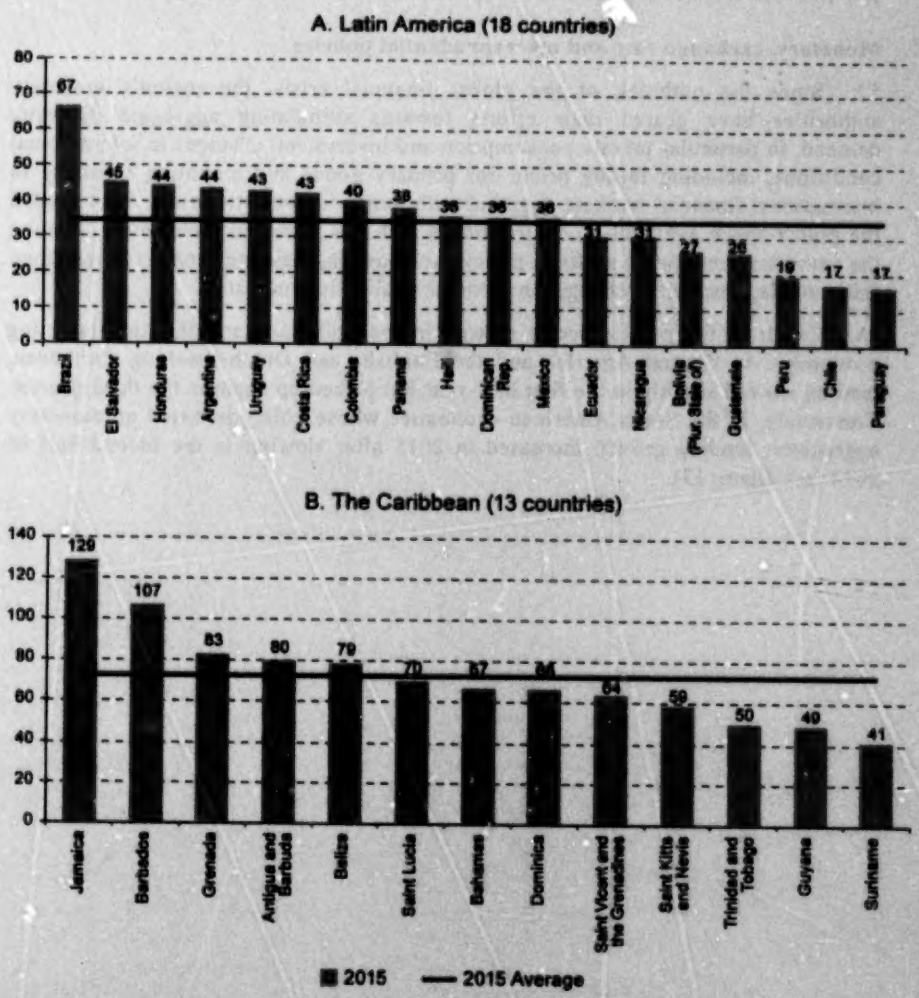
[c] Chile and Peru.

[d] Argentina, Paraguay and Uruguay.

[e] Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Jamaica, Panama, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

54. On average, public debt has held steady as a share of GDP, mainly because interest rates are currently low, although this unprecedented situation could be reversed by future rises. Latin America's public debt increased slightly to an average of 34.6 per cent of GDP in 2015 (see figure 12), still a comparatively low level. However, the rising trend has been explosive in Brazil, where public debt increased by 7.6 percentage points over the year, this being put down to a worsening fiscal deficit and high government bond interest rates in a context of recession. Public debt also rose in Ecuador (by 3.0 percentage points of GDP), Mexico (3.7 points) and Honduras (2.2 points), although to a lesser degree and from a much lower base.

Figure 12
Latin America and the Caribbean: central government gross public debt, 2015
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

55. Debt levels are somewhat above average (between 36 per cent and 45 per cent of GDP) in some countries of South America (Argentina, Colombia and Uruguay) and Central America (Costa Rica, El Salvador, Haiti, Honduras and Panama). At the other extreme, debt levels in Chile, Paraguay and Peru are below 20 per cent of GDP.

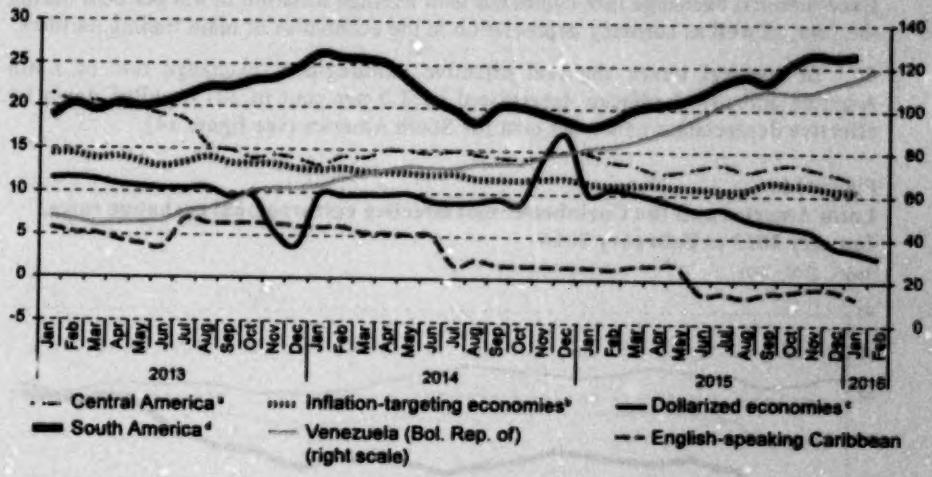
56. Central government debt in Caribbean countries has generally trended upward over the last half-decade and now averages 72.5 per cent of GDP, with Jamaica having the largest public debt at 129 per cent of GDP. Public debt rose during 2015 in Suriname (by 14.2 percentage points of GDP), Barbados (6.9 points), Belize (3.2 points), Trinidad and Tobago (2.6 points), Dominica (1.7 points) and Bahamas (1.0 points). It dropped in Saint Lucia (by 2.0 points), Guyana (3.1 points), Jamaica (4.0 points), Saint Vincent and the Grenadines (4.7 points), Antigua and Barbuda (5.6 points), Grenada (5.6 points) and Saint Kitts and Nevis (5.8 points).

2. Monetary, exchange-rate and macroprudential policies

57. Since the outbreak of the global financial crisis, the region's monetary authorities have geared their efforts towards stimulating aggregate domestic demand, in particular private consumption and investment. Changes in international conditions, including falling prices for primary goods and mounting volatility in international financial markets, together with trends in domestic prices, have eroded the policy space available to central banks and thus curtailed their action. Among the variables sensitive to shifts in policy tools, average lending rates have remained fairly stable, despite the changes in monetary policy instruments.

58. Credit to the private sector slowed in the dollarized and inflation-targeting economies. In Central America and the English- and Dutch-speaking Caribbean, lending slowed slightly in the first half-year but picked up again in the third quarter. Conversely, in the South American economies whose policy is based on monetary aggregates, lending growth increased in 2015 after slowing in the second half of 2014 (see figure 13).

Figure 13
Latin America and the Caribbean: annualized growth in domestic lending to the private sector, January 2013 to February 2016
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua and Panama.
[b] Brazil, Chile, Colombia, Mexico and Peru.
[c] Ecuador, El Salvador and Panama.
[d] Argentina, Paraguay, Plurinational State of Bolivia and Uruguay.

59. Analysis of the composition of credit shows a heavy slowdown in lending to industry, whereas consumer lending is the fastest-growing category.

60. Progressively declining international commodity prices and mounting expectations of an interest rate hike by the United States Federal Reserve, together with (to a lesser extent) the gradual slowing of the region's economies, led to a depreciation in the currencies of those countries that maintain flexible exchange-rate regimes, in a context of volatility, especially in those economies most integrated with international financial markets. The Brazilian real depreciated by 49.1 per cent against the United States dollar in 2015, while the Colombian peso depreciated by 33.6 per cent, the Mexican peso by 16.7 per cent, the Chilean peso by 16.9 per cent, and the Peruvian nuevo sol by 14.6 per cent.

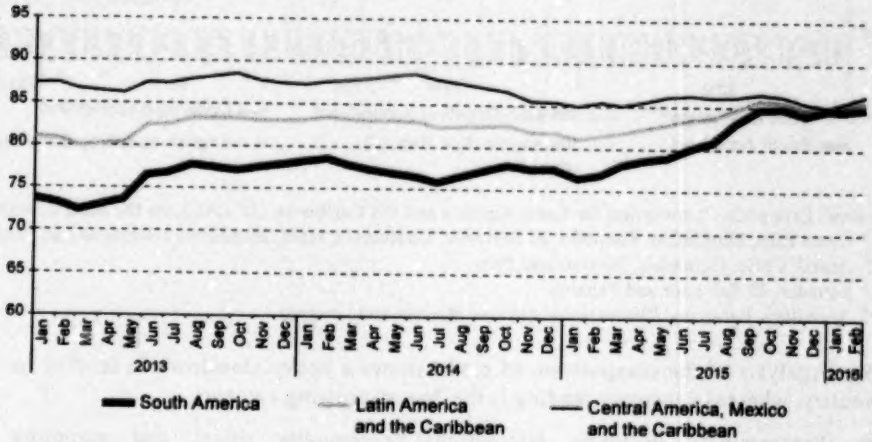
61. The currency depreciations in the countries mentioned were large enough to depress their effective exchange rates, notwithstanding they were often accompanied by rising inflation (associated with pass-through effects, second-order effects, and so forth). Thus, Colombia, Brazil and Mexico experienced year-on-year effective currency depreciation of 28.3 per cent, 27.1 per cent and 16.7 per cent, respectively.

62. A different situation prevails in countries without flexible exchange-rate regimes. In these cases the real effective exchange rate has been pushed up by combinations of such factors as rising inflation, heavy currency depreciations in these countries' main trading partners and inflexible exchange rates. This has occurred in Argentina, the Bolivarian Republic of Venezuelan, Ecuador and the Plurinational State of Bolivia.

63. In Central America, Guatemala recorded effective appreciation of 7.4 per cent, as a result of 3.4 per cent nominal devaluation of the quetzal and, to a lesser extent, to depreciation in trading partners such as Mexico. In the Caribbean, the process of effective appreciation continued in Trinidad and Tobago, owing chiefly to an almost fixed nominal exchange rate combined with average inflation of 4.6 per cent during the year, as well as currency depreciation in the economies of main trading partners.

64. In regional terms, the real effective extraregional exchange rate of Latin America and the Caribbean depreciated by 1.0 per cent in 2015, pulled down by effective depreciation of 4.6 per cent for South America (see figure 14).

Figure 14
Latin America and the Caribbean: real effective extraregional exchange rates, January 2013 to February 2016
(Index: 2005=100)



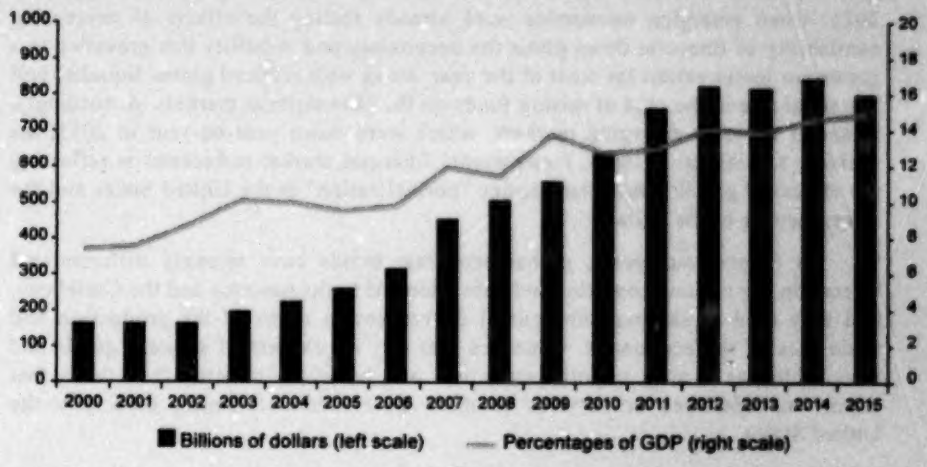
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

65. In 2015 international reserves showed a decline of 5.3 per cent in Latin America and the Caribbean, the largest contraction since the start of the commodity price supercycle that began in 2003 (see figure 15). Reserves were down in 20 of the region's economies, and in 13 of these the fall exceeded 5 per cent. The economies with the largest loss of reserves were Argentina (-18.7 per cent), Ecuador (-36.8 per cent), Suriname (-36.3 per cent) and the Bolivarian Republic of Venezuela (-25.8 per cent).

66. Conversely, reserves rose in 10 of the region's economies, with the heftiest gains in Costa Rica (8.6 per cent), Jamaica (17.1 per cent) and Saint Lucia (28.5 per cent). The five economies with the region's largest reserves all experienced reserve losses, with the heaviest falls in Chile (-4.5 per cent) and Mexico (-9.2 per cent).

67. Despite this decline, reserves expanded in relation to GDP, from 14.8 per cent in 2014 to 15.3 per cent en 2015 (see figure 15). This performance at the regional level reflected developments in the South American economies (where reserves rose by 7.1 per cent), especially Brazil and Colombia, where the reserves-to-GDP ratio climbed by over 10 per cent, offsetting the fall in the English-speaking Caribbean (-6.3 per cent) and in Central America and Mexico (-4.1 per cent).

Figure 15
Latin America and the Caribbean: gross international reserves, 2000-2015
(Billions of dollars and percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

68. A number of countries made reforms to their financial systems to complement monetary and exchange-rate policies, adopting macroprudential measures with a view to offsetting potential systemic risks and adapting their international reserves management to increasingly uncertain external conditions and rising foreign borrowing costs.

F. Trends and outlook for 2016

69. A number of scenarios and possible risks will arise in the global economy in 2016 and will unquestionably affect the course of economic activity in the Latin American and Caribbean region. As noted earlier, projections for the next few years are for low global growth, sustained by slow but steady recovery in the developed economies. Serious risks remain, however, which could jeopardize that trajectory. Aside from the eurozone's ongoing difficulties, uncertainty has been mounting over the future performance of China and the emerging economies in general. In the case of China, the most likely scenarios point to continued economic slowdown, with a growth rate of around 6.4 per cent in 2016. Trends in the emerging economies are clouding the aggregate external demand outlook for the countries of Latin America and the Caribbean.

70. To uncertainties over the growth of the global economy is added the lacklustre growth in trade — at 1.5 per cent in 2015, the poorest performance since the crisis of 2007-2009. Global trade volumes are expected to expand at rates of around 2.5 per cent in 2016, still lagging economic growth rates.

71. Amid slack growth in aggregate global demand and supply-side constraints, raw materials prices are unlikely to recover and will remain at close to end-2015

values. In this context, terms of trade for the Latin American and Caribbean region overall will decline again, although not as steeply as in 2015.

72. Conditions on the financial markets are expected to toughen with respect to 2015, when emerging economies were already feeling the effects of decreasing availability of financial flows given the uncertainty and volatility that prevailed to a greater or lesser extent for most of the year, along with reduced global liquidity and a gradual rise in the cost of raising funds on the international markets. Accordingly, financial flows to emerging markets, which were down year-on-year in 2015, are unlikely to pick up in 2016. International financial market turbulence is reflecting the effects of possible monetary policy "normalization" in the United States and the strengthening of the dollar.

73. As in previous years, global economic trends have strongly differentiated effects on the various countries and subregions of Latin America and the Caribbean, and they tend to sharpen subregional differences in terms of the production and trade bias of the economies. Countries that rely on exports of primary goods and have China as a main export destination will be worse affected than those that export manufactures or services to more developed economies, especially the United States.

74. For primary-goods-exporters, the dip in income from this source will constrain the performance of variables such as disposable national income (and, thus, of private consumption), as well as fiscal revenues (and, thus, of space for countercyclical policymaking), the current account balance and exchange-rate movements. In addition, with inflationary pressure building up owing to exchange-rate pass-through effects, the use of countercyclical monetary policy has been tailing off in those countries.

75. The combination of tighter liquidity in external financial markets and terms-of-trade shocks will reduce international financial flows to many of the countries in the region, as capital inflows decrease and outflows rise. In turn, this will prolong exchange-rate volatility and oblige the countries to make greater use of international reserves to finance current account deficits, increasing the likelihood that the region is now facing not only an adverse trade environment, but also a much less benign financial environment.

76. Domestic demand slowed heavily in 2015, as in 2014, especially private consumption and investment, and will likely continue to do so in 2016, which entails significant risks with respect to future growth capacity.

77. Stimulating economic growth poses broad challenges for the region. To achieve this, as well as breaking the contractionary investment cycle begun in 2014, the countries would have to increase productivity, which is also lagging heavily by comparison with other regions and with the developed countries. The capacity to increase productivity has been hampered not only by the drop in investment, but also by the weakening of the region's industrial and manufacturing sectors over the past few years. This weakening has gone hand in hand with increasing deterioration in the labour markets, which are showing rising employment in informal, low-productivity sectors. In a context of slack economic growth, the region must also find ways to safeguard the social progress made over recent years.

78. Amid declining fiscal revenues, which have set off an entrenchment of the public accounts, it becomes all the more essential to establish fiscal rules to

prioritize capital spending. As ECLAC has argued before, it is extremely important to establish countercyclical investment protection regimes in order to stand up to the region's macroeconomic volatility. Regimes that complement countercyclical policies with measures to protect (and stimulate) investment at the bottom of the cycle can be much more effective than fiscal rules based solely on spending or deficit targets when it comes to minimizing adjustment costs and boosting expectations of potential growth and future stability.

79. Against a complex and risk-prone external backdrop, regional GDP is expected to post a further contraction of 0.6 per cent in 2016, following on from negative growth of 0.5 per cent in 2015 (see table 2). Like in 2015, however, the weighted average growth projection hides differentiated performances between countries and subregions. Central America, including the Spanish-speaking Caribbean and Haiti, is projected to grow by around 3.9 per cent in 2016. South America will post negative growth (-1.9 per cent), essentially reflecting contractions in Brazil (-3.5 per cent) and the Bolivarian Republic of Venezuela (-6.9 per cent). Lastly, the English-speaking Caribbean will register growth of 0.9 per cent.

80. In this context labour demand and quality employment creation will remain weak. Meagre job creation and the resulting fresh drop in the employment rate will again push up the unemployment rate. Low-productivity employment will increase in many countries, since many households will be forced to generate additional labour income.

81. In several countries, real wages — and thus household income — will be hurt by smaller gains in nominal wages amid rising unemployment, or by relatively high inflation as a lagged consequence of exchange-rate depreciation, for example. This will not occur across the board, however, and real wages should continue to perform more favourably in countries with low inflation and moderate GDP growth.

Table 2
Latin America and the Caribbean: annual growth in gross domestic product, 2010-2016
(Percentages, on the basis of dollars at constant 2010 prices)

Country	*2010*	*2011*	*2012*	*2013*	*2014*	*2015[a]*	*2016[b]*
Argentina	9.5	8.4	0.8	2.9	0.5	2.1	-0.8
Bolivia (Plurinational State of)	4.1	5.2	5.1	6.8	5.5	4.8	4.5
Brazil	7.6	3.9	1.8	2.7	0.1	-3.9	-3.5
Chile	5.8	5.8	5.5	4.2	1.9	2.1	1.6
Colombia	4.0	6.6	4.0	4.9	4.6	3.1	2.9
Costa Rica	5.0	4.5	5.2	3.4	3.5	2.8	3.5
Cuba	2.4	2.8	3.0	2.7	1.3	4.0	2.0
Dominican Republic	8.3	2.8	2.6	4.8	7.3	5.5	5.5
Ecuador	3.5	7.9	5.6	4.6	3.7	0.4	-0.1
El Salvador	1.4	2.2	1.9	1.8	2.0	2.4	2.4
Guatemala	2.9	4.2	3.0	3.7	4.2	3.9	3.7
Haiti	-5.5	5.5	2.9	4.3	2.7	2.0	2.0
Honduras	3.7	3.8	4.1	2.8	3.1	3.4	3.4

Country	*2010*	*2011*	*2012*	*2013*	*2014*	*2015[a]*	*2016[b]*
Mexico	5.2	3.9	4.0	1.4	2.2	2.5	2.3
Nicaragua	3.2	6.2	5.1	4.5	4.7	4.9	4.6
Panama	5.8	11.8	9.2	6.6	6.1	5.9	6.2
Paraguay	13.1	4.3	-1.2	14.0	4.7	3.0	2.8
Peru	8.3	6.3	6.1	5.9	2.4	3.4	3.8
Uruguay	7.8	5.2	3.3	5.1	3.5	1.0	0.5
Venezuela (Bolivarian Republic of)	-1.5	4.2	5.6	1.3	-4.0	-5.6	-6.9
Subtotal for Latin America[a]	**6.3**	**4.7**	**2.9**	**2.9**	**1.2**	**-0.5**	**-0.6**
Antigua and Barbuda	-7.1	-1.8	4.0	-0.3	4.8	3.2	2.1
Bahamas	1.5	0.6	2.2	0.0	1.0	1.5	2.4
Barbados	0.3	0.8	0.3	-0.1	0.2	0.5	1.8
Belize	3.3	2.1	3.8	1.5	3.4	1.7	2.7
Dominica	0.7	-0.1	-1.3	0.6	4.0	-2.7	3.5
Grenada	-0.5	0.8	-1.2	2.4	5.7	3.4	-1.0
Guyana	4.4	5.4	4.8	5.2	3.8	2.0	3.4
Jamaica	-1.5	1.7	-0.6	0.5	0.7	1.0	1.5
Saint Kitts and Nevis	-3.2	1.7	-1.2	5.8	6.9	5.2	5.1
Saint Lucia	-1.7	0.7	-1.1	0.1	0.5	1.3	2.3
Saint Vincent and the Grenadines	-3.4	-0.4	1.4	1.7	0.7	1.0	1.5
Suriname	5.2	5.3	3.1	2.9	3.4	2.2	0.5
Trinidad and Tobago	3.3	-0.3	1.3	2.3	-1.0	0.2	-1.0
Subtotal for the Caribbean	**1.4**	**1.0**	**1.2**	**1.5**	**0.7**	**1.0**	**0.9**
Latin America and the Caribbean	**6.2**	**4.7**	**2.9**	**2.8**	**1.2**	**-0.5**	**-0.6**
Central America (9 countries)[c]	**4.1**	**4.4**	**4.0**	**3.8**	**4.0**	**4.4**	**3.9**
South America (10 countries)[d]	**6.7**	**5.0**	**2.6**	**3.2**	**0.6**	**-1.7**	**-1.9**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Preliminary figures.

[b] Projections.

[c] Includes Costa Rica, Cuba, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua and Panama.

[d] Includes Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.